

Message Text

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ACTION NEA-10

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C O N F I D E N T I A L TEL AVIV 2672

E.O. 11652: GDS
TAGS: EAIR, IS
SUBJECT: ISRAEL AIRCRAFT INDUSTRY

1. ONE OF THE HIGH-PRIORITY ITEMS AWAITING DECISION BY THE NEW GOVERNMENT TO BE FORMED AFTER THE MAY ELECTIONS IS THE FUTURE OF THE AIRCRAFT INDUSTRY, I.E., THE LARGE STATE-OWNED ISRAEL AIRCRAFT INDUSTRY (IAI). "WHITHER GOEST IAI" BECAME A HEADLINE ISSUE LAST MONTH WITH THE U.S. VETO OF THE KFIR SALE TO ECUADOR. AT THAT TIME AND SUBSEQUENTLY, THE MANY SUPPORTERS OF A STRONG AIRCRAFT INDUSTRY IN ISRAEL ARGUED THAT THE CONTINUED GROWTH--AND EVEN EXISTENCE--OF IAI REQUIRED DEVELOPMENT AND PRODUCTION OF FIRST-LINE MILITARY AIRCRAFT AND THAT THIS WAS ECONOMICALLY FEASIBLE ONLY IF IT COULD BE ASSURED OF SALES TO THE ISRAELI AIR FORCE AND TO FOREIGN CUSTOMERS.

2. SPEAKING TO A RADIO REPORTER ON MARCH 8, IAI MANAGING DIRECTOR SCHWIMMER TOOK THE ARGUMENT ONE STEP FURTHER AND SAID THAT HE WAS AGAINST THE PURCHASE BY ISRAEL OF THE F-16. ISRAEL, HE SAID, COULD NOT AFFORD TO HAVE THREE MODERN FIGHTERS IN ITS INVENTORY. SINCE ISRAEL HAD ALREADY DECIDED TO BUY THE F-15, IAI SHOULD BE PERMITTED TO DEVELOP A THIRD-GENERATION FIGHTER,
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AS A FOLLOW-ON TO THE KFIR, TO BE USED ALONGSIDE THE AMERICAN PLANE. HE ARGUED THAT IAI COULD NOT POSSIBLY HOLD TOGETHER ITS PRESENT LABOR FORCE OF 18,000, INCLUDING A LARGE NUMBER OF HIGHLY COMPETENT ENGINEERS AND TECHNICIANS, UNLESS IT IS GIVEN A MAJOR DESIGN AND PRODUCTION ROLE.

3. ISRAEL AIR FORCE COMMANDER PELED, FOR HIS PART, HAS MADE IT VERY CLEAR THAT WHILE HE FULLY SUPPORTS A STRONG AND VIABLE IAI, HE BELIEVES THAT A MAJOR BUY OF F-16'S IS ESSENTIAL FOR ISRAEL'S FUTURE AIR DEFENSE. HE WILL UNDOUBTEDLY CONTINUE TO PUSH VERY HARD IN FAVOR OF ACQUIRING 200-250 F-16 FIGHTERS. THUS, THE QUESTION OF THE FUTURE IAI ROLE WILL HAVE TO BE DECIDED BY THE NEW GOVERNMENT, WHICH WILL HAVE A NEW PRIME MINISTER AND A NEW MINISTER OF DEFENSE.

4. COMMENT: NOW THAT SHIMON PERES WILL LEAD THE LABOR PARTY IN THE ELECTIONS AND IS LIKELY TO BE THE NEXT PRIME MINISTER, MOST OBSERVERS BELIEVE THAT IAI'S PROSPECTS HAVE IMPROVED. PERES, DURING HIS LONG YEARS AS DIRECTOR GENERAL AND LATER MINISTER OF DEFENSE, PLAYED A MAJOR ROLE IN BUILDING UP ISRAEL'S DEFENSE INDUSTRIES AND IAI IN PARTICULAR. IN RECENT PUBLIC STATEMENTS HE HAS REITERATED THE DESIRABILITY OF ENHANCED ISRAELI "INDEPENDENCE" AND ABILITY TO DEFEND ITSELF WITHOUT HAVING TO RELY ON FOREIGN FRIENDS. AT THE SAME TIME, HE IS UNDOUBTEDLY AWARE OF ISRAEL'S LIMITATIONS IN TERMS OF RESOURCES, TECHNOLOGY, AND MANPOWER; HE WAS IN FACT THE CHIEF NEGOTIATOR FOR MANY OF ISRAEL'S MAJOR ARMS PURCHASES IN THE PAST, E.G., THE ARMS DEALS WITH FRANCE IN THE 1950'S. ANOTHER ASPECT IS THAT THE GENEROUS U.S. FINANCIAL ASSISTANCE TO ISRAEL IN RECENT YEARS HAS IN A REAL SENSE MADE IT EASIER TO BUY WEAPONS SYSTEMS IN THE U.S. THAN TO PRODUCE THEM IN ISRAEL.

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5. IT IS TOO EARLY TO PREDICT HOW THE ISSUE WILL BE RESOLVED. IN ANY EVENT, GIVEN THE REAL CONCERN HERE ABOUT IAI'S FUTURE AND THE LIKELIHOOD THAT PERES WILL BE THE NEXT PRIME MINISTER, WE WOULD ANTICIPATE GREATER EMPHASIS IN NEGOTIATIONS WITH THE USG ON THE NEED TO SAFEGUARD ISRAEL'S AIRCRAFT INDUSTRY. THIS COULD VERY WELL TAKE THE FORM OF RENEWED PRESSURE FOR CO-PRODUCTION OF THE F-16 IN ISRAEL.

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Sent Date: 15-Apr-1977 12:00:00 am
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